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SUBJECT: OFFICE OF ECONOMIC POLICY WEEKLY STATUS REPORT,
JULY 5, 1977

1. US-ASEAN CONSULTATIONS (CONFIDENTIAL)

THE US NOTE, AGREEING TO ECONOMIC CONSULTATIONS WITH ASEAN
ON SEPTEMBER 7-9, WAS DELIVERED IN MANILA ON JULY 1.
MRS. MANALO WAS PLEASED THAT YOU WILL LEAD THE DELEGATION
AND EXPRESSED THE HOPE THAT UNDER SECRETARY COOPER MAY
ALSO PARTICIPATE. ASEAN WILL HOLD ITS FIRST PREPARATORY
MEETING FOR THESE TALKS AROUND JULY 13-14 AND WE HOPE
TO SEND OUT SOMETHING ON DEVELOPMENT COOPERATION,
NORTH-SOUTH ISSUES AND POSSIBLY INVESTMENT PRIOR TO THAT
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OUR BRUSSELS MISSION INFORMED THE EC COMMISSION AND
THEY FULLY SUPPORT THE ESTABLISHMENT OF US-ASEAN ECONOMIC
CONSULTATIONS; THE EC WANTS TO COOPERATE WITH THE US IN
WORKING WITH ASEAN. A PROPOSAL BY THE EC FOREIGN
MINISTERS' COUNCIL FOR EXPANDED CONSULTATIONS BETWEEN
ASEAN AND EC MEMBER STATE PERMANENT DELEGATIONS IN

BRUSSELS WHICH WOULD SUPPLEMENT THE ACTIVITIES OF THE

JOINT STUDY COMMISSION, HAS NOT YET BEEN ANSWERED BY ASEAN. MOST OF THE ASEAN MEMBERS SEEM TO BE IN FAVOR BUT AGAIN MALAYSIA HAS SOME RESERVATIONS. ASEAN IS BECOMING MORE EFFECTIVE IN ITS RELATIONS WITH THE EC ACCORDING TO THE COMMISSION STAFF; THE ASEAN AMBASSADORS IN BRUSSELS ARE MEETING WEEKLY AND ARE CONSIDERING SIMILAR GROUPS IN THE MAJOR CAPITALS OF THE NINE MEMBER STATES.

2. JAPAN-ASEAN RELATIONS (CONFIDENTIAL)

JAPAN APPEARS TO BE MOVING PARTLY IN THE DIRECTION OF "SPECIAL RELATIONSHIP" WITH ASEAN WHICH ASEAN HAS BEEN PRESSING WITH JAPANESE OFFICIALS IN PREPARATORY MEETINGS FOR THE PRIME MINISTER'S VISIT TO THE ASEAN SUMMIT. SPECIFICALLY A "STABEX" TYPE FUND IS BEING CONSIDERED FOR ASEAN'S EXPORT EARNINGS. THERE IS SOME RESISTANCE TO THE PROPOSAL WITHIN THE JAPANESE GOVERNMENT AND A POLITICAL DECISION BY THE PRIME MINISTER WILL BE REQUIRED TO MOVE THE PROJECT AHEAD. FUKUDA IS NOT EXPECTED TO GO BEYOND A GENERAL ANNOUNCEMENT OF SUPPORT AT THE SUMMIT MEETING AND JAPANESE ASSISTANCE TO THE FIVE INDUSTRIAL PROJECTS MAY RECEIVE THE SAME SORT OF GENERAL TREATMENT AT THAT TIME.

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3. IEA GOVERNING BOARD MEETING, JUNE 27-28 (CONFIDENTIAL)

IN A LENGTHY SESSION THE INTERNATIONAL ENERGY AGENCY'S (IEA) GOVERNING BOARD (GB) VIRTUALLY WRAPPED UP PREPARATIONS FOR REDUCED DEPENDENCY DECLARATION TO BE ADOPTED AT A MINISTERIAL MEETING TO BE HELD IN EARLY OCTOBER. EXCEPT FOR GENERAL RESERVATION BY ITALY AND A FEW SPECIFIC AD REFERENDUMS BY SOME DELEGATIONS, THE GOVERNING BOARD AGREED TO A DRAFT DECISION ENCOMPASSING A GROUP OIL IMPORT OBJECTIVE FOR 1985 OF 26 MMBD, ENDORSEMENT OF A SET OF 12 PRINCIPLES FOR ENERGY POLICY AND STRENGTHENED COUNTRY REVIEW PROCEDURES DESIGNED TO MONITOR PROGRESS TOWARD ACHIEVEMENT OF THE GROUP OBJECTIVE. NEW ZEALAND DEMURRED ON THE NUCLEAR PRINCIPLE URGING EXPANSION OF NUCLEAR POWER BECAUSE IT HAS NOT TAKEN A NATIONAL DECISION TO INTRODUCE NUCLEAR GENERATING CAPACITY. JAPAN WAS PUSHING HARD FOR LANGUAGE CALLING ON COAL PRODUCING COUNTRIES TO PROVIDE GREATER ASSURANCE OF EXPANDED EXPORTS.

4. US-JAPAN BILATERAL SUB-CABINET CONSULTATIONS (LIMITED OFFICIAL USE)

TO FOLLOW UP IN PURSUIT OF GOALS ESTABLISHED AT THE LONDON SUMMIT AND OECD MINISTERIAL, THE US IS PROPOSING

A PAIR OF SUB-CABINET LEVEL MEETINGS WITH JAPAN. UNDER SECRETARY COOPER IS SLATED TO HEAD THE US DELEGATION. WE PROPOSE THAT THE FIRST MEETING, SUGGESTED FOR TOKYO THE WEEK OF SEPTEMBER 12, BE DEVOTED TO UNDERSTANDING EACH OTHERS CAPABILITIES AND DIFFICULTIES IN DEALING WITH PROTECTIONIST PRESSURES. THE AGENDA WOULD INCLUDE A REVIEW OF THE 1977/78 US AND JAPANESE BALANCE OF PAYMENTS OUTLOOK AND CONSIDERATION OF RESPECTIVE TRADE, PAYMENTS AND FINANCIAL POLICIES TO DETERMINE WHETHER THERE ARE MEASURES BOTH COULD TAKE TO DEFUSE THE
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PROTECTIONIST TREND.

IN A RELATED DEVELOPMENT, SECRETARY BLUMENTHAL HAS WRITTEN TO JAPANESE FINANCE MINISTER BOH TO CONVEY OUR ENCOURAGEMENT BY PRIME MINISTER FUKUDA'S STATEMENTS CONCERNING THE NEED FOR ACTION BY JAPAN TO ADJUST ITS TRADE AND CURRENT ACCOUNT IMBALANCES AND TO EXPRESS THE HOPE THAT THESE STATEMENTS WILL BE TRANSLATED INTO CONCRETE ACTION. IN LIGHT OF THE IMPENDING ELECTIONS THE GOJ ASKED THAT THE LETTER NOT BE PUBLISHED.

5. IFI AUTHORIZATION BILL (LIMITED OFFICIAL USE)

LAST WEEK THE HOUSE-SENATE CONFERENCE RESOLVED SOME OF THE MINOR DIFFERENCES ON THE IFI AUTHORIZATION ACT BUT LEFT THE DOLE AMENDMENT (ON INDOCHINA) THE PALM OIL, CITRUS AND SUGAR AMENDMENT AND HUMAN RIGHTS FOR LATER CONSIDERATION. THE STAFF HAS BEEN INSTRUCTED TO TRY TO WORK OUT COMPROMISES. PALM OIL IS LIKELY TO BE THE KEY AS CONGRESSMAN REUSS NEEDS TO SATISFY THE "PALM OIL" CONGRESSMEN TO BE ABLE TO COMPROMISE ON HUMAN RIGHTS. IN MEANTIME WE LEARNED THAT THE RATHER FORTHCOMING STATEMENTS BY SECRETARY BERGLAND ON US PALM OIL POLICY WHICH HE MADE IN INDONESIA AND MALAYSIA, AND WHICH ARE IN CONFLICT WITH FRED BERGSTEN'S RECENT ASSURANCES TO CONGRESS THAT WE WILL OPPOSE IFI LOANS FOR PALM OIL TO BE EXPORTED, REFLECT THE PRESIDENT'S THINKING.

6. TRADE ACTIONS (LIMITED OFFICIAL USE)

TREASURY DEPUTY SECRETARY CARSWELL MET WITH JAPANESE AMBASSADOR TOGO TO EXPRESS CONCERN OVER THE JAPANESE CARBON STEEL MANUFACTURERS REFUSAL TO PROVIDE TREASURY
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WITH COST OF PRODUCTION INFORMATION. THE JAPANESE ARE WORRIED THAT TREASURY CANNOT GUARANTEE THAT THE COST INFORMATION WILL REMAIN CONFIDENTIAL. TREASURY BELIEVES THAT THE JAPANESE FIRMS WILL PROBABLY NOT PROVIDE THE REQUESTED DATA.

THE ITC HAS REPORTED TO THE HOUSE WAYS AND MEANS COMMITTEE THAT THE PROBLEMS OF THE CONVENTIONAL SEGMENT OF THE DOMESTIC WATCH INDUSTRY ARE CAUSED BY THE INCREASED SHARE OF THE US MARKET OBTAINED BY NON-CONVENTIONAL WATCHES NOT BY AN INCREASE IN IMPORTS. IN LIGHT OF THIS REPORT, IT IS UNLIKELY THAT CONGRESS WILL ENACT ANY RESTRICTIVE LEGISLATION CONCERNING WATCHES.

7. GSP/OPEC EXCLUSION (LIMITED OFFICIAL USE)

EB REPORTS THAT PRESIDENT CARTER DISCUSSED THE "MONDALE OPTION" (PRESIDENTIAL DISCRETION TO DESIGNATE OPEC COUNTRIES AS ELIGIBLE FOR GSP CONDITIONED ON "GOOD" BEHAVIOR ON PRICE AND SUPPLY) WITH PRESIDENT PEREZ WHO INDICATED THIS WOULD PROBABLY BE ACCEPTABLE TO THE OPEC COUNTRIES. CONGRESSMAN VANIK INTENDS TO HOLD HEARINGS ON JULY 13.

8. VEGETABLE OIL MEETING (LIMITED OFFICIAL USE)

THE UNCTAD PREPARATORY MEETING ON VEGETABLE OILS WAS HELD IN A VERY BUSINESS LIKE MANNER WITH THE US JOINING THE PRODUCER GROUP AND SERVING AS CHAIRMAN OF THE MEETING. SEVERAL FACTORS CONTRIBUTED TO THE NON-POLEMICAL TONE OF THE MEETING: 1) THE DEVELOPING PRODUCERS WERE DOMINATED BY THE BRAZILIAN DELEGATE WHO WAS NOT SEEKING AMBITIOUS INTERNATIONAL ACTION IN THIS SECTOR; 2) THE PHILIPPINES, WHICH MIGHT HAVE SOUGHT MEASURES TO ADDRESS PROBLEMS UNIQUE TO THE COCONUT INDUSTRY, DID NOT PLAY AN ACTIVE ROLE; AND 3) MALAYSIA AND INDONESIA WERE

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REPRESENTED BY THEIR GENEVA REPRESENTATIVES WHO ARE INTERESTED IN PROMOTING THE INTEGRATED PROGRAM AND EVIDENTLY DID NOT WANT TO CAUSE A CONFRONTATION OVER VEGETABLE OILS. FURTHER ANALYSES WILL BE UNDERTAKEN BY FAO AND UNCTAD AND A SECOND MEETING WILL BE HELD NO LATER THAN FEBRUARY 1978.

9. SYDNEY TRADE CENTER, BORN AGAIN (UNCLASSIFIED)

THE CONFERENCE COMMITTEE DEALING WITH THE DEPARTMENT OF
COMMERCE FY-78 BUDGET ACCEPTED THE HOUSE LANGUAGE WHICH
STIPULATES THAT THE SYDNEY TRADE CENTER BE CONTINUED.
NO EXTRA FUNDS WERE PROVIDED FOR THE CENTER'S OPERATION
AND COMMERCE WILL HAVE TO REPROGRAM RESOURCES.

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